

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Leeelanau County Road Commission</i>	County <i>Leeelanau</i>
Audit Date <i>December 31, 2004</i>	Opinion Date <i>March 24, 2005</i>	Date Accountant Report Submitted to State: <i>April 25, 2005</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <i>Anderson, Tackman & Company, PLC</i>			
Street Address <i>16978 S. Riley Ave.</i>	City <i>Kincheloe</i>	State <i>MI</i>	ZIP <i>49788</i>
Accountant Signature <i>Anderson Tackman & Co P.C.</i>			

LEELANAU COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

December 31, 2004

LEELANAU COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Glen Noonan
Chairman

Lee A. Bowen
Vice - Chairman

John Popa
Member

James Johnson
Engineer

Joel Nedow
Clerk

Herbert Cradduck
Superintendent / Manager

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Activities.....	9
Balance Sheet	10
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets.....	11
Statement of Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
Required Supplementary Information:	
Budgetary Comparison Schedule:	
Statement of Revenues – Budget and Actual.....	24
Statement of Expenditures – Budget and Actual	25
Analysis of Changes in Fund Balances	26
Analysis of Revenues.....	27
Analysis of Expenditures	28
Reports on Compliance:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Schedule of Findings and Responses	31
Schedule of Expenditures of Federal Awards.....	32



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Leelanau County Road Commission
10550 E. Eckerle Road
Suttons Bay, Michigan 49682

We have audited the accompanying financial statements of the governmental activities and the major fund of the Leelanau County Road Commission (a component unit of the County of Leelanau, Michigan) as of and for the year ended December 31, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Leelanau County Road Commission as of December 31, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2005, on our consideration of the Leelanau County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leelanau County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 24, 2005

Management's Discussion and Analysis

Using This Annual Report

The Leelanau County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 10. The fund financial statements begin on page 24 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 11% from \$18.5 million to \$20.6 million for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements decreased \$0.5 million. Restricted net assets, those restricted mainly for Act 51 purposes, increased \$2.6 million. The primary reason for the increases was an increase in federal and state support for road projects.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to report infrastructure assets for the prior 10 years. Infrastructure provisions of GASB 34 have been implemented for the current year as well.

Net assets as of the year ended December 31, 2003 and 2004 follows:

	Governmental Activities	
	2003	2004
Current Assets	\$ 2,922,761	\$ 2,432,761
Capital Assets	<u>16,131,750</u>	<u>18,686,559</u>
Total Assets	<u>19,054,511</u>	<u>21,119,320</u>
Current Liabilities	375,636	379,947
Long-Term Liabilities	<u>140,527</u>	<u>163,306</u>
Total Liabilities	<u>516,163</u>	<u>543,253</u>
Net Assets		
Invested in Capital Assets	16,131,750	18,686,559
Unrestricted	<u>2,406,598</u>	<u>1,889,508</u>
Total Net Assets	<u>\$ 18,538,348</u>	<u>\$ 20,576,067</u>

A summary of changes in net assets for the year ended December 31, 2004 follows:

	Governmental Activities	
	2003	2004
Program Revenues		
Charges for Services	\$ 1,426,749	\$ 935,063
Operating Grants and Contributions	3,949,723	3,821,363
General Revenues		
Taxes	790,684	782,604
Interest Income and Other	16,978	107,709
Gain on Sales	59,000	36,500
Total Revenues	<u>6,243,134</u>	<u>5,683,239</u>
Program Expenses		
Primary Roads	1,186,646	1,055,510
Local Roads	1,545,320	1,623,164
State Trunkline	1,056,524	756,874
Equipment Expense	10,447	(693)
Administrative	181,829	181,263
Other	31,915	29,402
Total Expenses	<u>4,012,681</u>	<u>3,645,520</u>
Increase in Net Assets	<u>\$ 2,230,453</u>	<u>\$ 2,037,719</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund decreased \$509 thousand as compared to an increase of \$644 thousand in the fund balance for the prior year. Total revenues were \$5.7 million, a decrease of \$500 thousand as compared to last year. This change in revenues resulted primarily from decreases in other funding.

Total expenditures were \$6.2 million, an increase of \$700 thousand as compared to last year. This change in expenditures is primarily the increase in heavy maintenance in the current year. The road commission incurred an increase in capital outlay last year due to significant road equipment purchases.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2004 was lower than the actual receipts by \$125,000. This was due, in a large part, to the projection of federal grants applied to primary road heavy maintenance projects. The road commission budgets for the receipt of funds from townships and others for projects on local roads. This year, the revenue from public and local contributions was higher than projected in the amount of \$178,000.

Road Commission expenditures were projected at \$6.623 million while actual expenditures were \$6.178 million. This resulted in total expenditures being over budget by \$446 thousand. There were three areas that account for most of the variance in the projection of the budget. A share of the variance is in the area of primary road heavy maintenance. When revenues are not identifiable, corresponding expenditures are not recorded. Expenditures for local road heavy maintenance and routine maintenance were over budget by \$87 thousand and \$401 thousand, respectively. Our engineering and maintenance departments projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year-end.

Capital Assets

As of December 31, 2004, (year end) the road commission had \$18,686,559 invested in capital assets as follows:

	<u>2003</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 4,614,209	\$ 5,667,171
Other Capital Assets		
Buildings and Improvements	1,605,505	1,605,505
Road Equipment	6,657,856	7,337,865
Other Equipment	827,153	818,831
Infrastructure and Improvements	<u>11,343,832</u>	<u>13,187,676</u>
Total Capital Assets at Historic Cost	25,048,555	28,617,048
Total Accumulated Depreciation	<u>(8,916,805)</u>	<u>(9,930,489)</u>
Total Net Capital Assets	<u>\$ 16,131,750</u>	<u>\$ 18,686,559</u>

Current year's major additions included the following:

Various Resurfacing Projects	<u>\$ 2,231,361</u>	<u>\$ 2,896,806</u>
Trucks/Equipment	<u>\$ 399,243</u>	<u>\$ 798,196</u>

Debt

The road commission currently has long-term debt in the amount of \$163,306 which represents sick and vacation pay due to employees.

Economic Factors and Next Year's Budget

The board of county road commissioner's considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 63% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and /or rebuild every road in Leelanau County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Leelanau County Road Commission administrative offices at 10550 E. Eckerle Road, Suttons Bay, Michigan 49682.

Basic Financial Statements

Leelanau County Road Commission

Statement of Net Assets December 31, 2004

ASSETS

Cash and Equivalents	\$ 705,545
Accounts Receivable:	
Taxes Receivable	694,501
Michigan Transportation Fund	432,260
State – Other	18,762
Due on Governmental Agreements	62,110
Sundry Accounts	129,486
Trunkline Maintenance	119,426
Inventories:	
Road Materials	141,388
Equipment, Parts and Materials	96,906
Prepaid Expenses	32,377
Capital Assets (Net of Accumulated Depreciation)	<u>18,686,559</u>
Total Assets	<u>\$ 21,119,320</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 41,540
Escrow Payable	11,700
Accrued Liabilities	32,985
Advances from State	293,722
Noncurrent Liabilities:	
Vested Employee Benefits	<u>163,306</u>
Total Liabilities	<u>543,253</u>

NET ASSETS

Investment in Capital Fixed Assets - (Net of Related Debt)	18,686,559
Restricted for County Road	<u>1,889,508</u>
Total Net Assets	<u>\$ 20,576,067</u>

Leelanau County Road Commission

Statement of Activities For the Year Ended December 31, 2004

Program Expenses:	
Primary Road	\$ 1,055,510
Local Road	1,623,164
State Trunkline Maintenance	756,874
Net Equipment Expense	(693)
Net Administrative Expense	181,263
Compensated Absences	22,779
Other	<u>6,623</u>
Total Program Expenses	<u>3,645,520</u>
Program Revenues:	
License and Permits	7,240
Federal Grants	441,486
State Grants	3,152,259
Contributions from Local Units	227,618
Charges for Services	927,823
Investment Earnings and Other	<u>107,709</u>
Total Program Revenues	<u>4,864,135</u>
Net Program Revenues	<u>1,218,615</u>
General Revenue:	
Taxes	782,604
Gain on Equipment Disposal	<u>36,500</u>
Total General Revenues	<u>819,104</u>
Change in Net Assets	2,037,719
Net Assets	
Beginning of Year	<u>18,538,348</u>
End of Year	<u>\$ 20,576,067</u>

Leelanau County Road Commission

Balance Sheet December 31, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 705,545
Accounts Receivable:	
Taxes Receivable	694,501
Michigan Transportation Fund	432,260
State Trunkline Maintenance	119,426
State – Other	18,762
Due on Governmental Agreements	62,110
Sundry Accounts	129,486
Inventories:	
Road Materials	141,388
Equipment, Parts and Materials	96,906
Prepaid Expenses	<u>32,377</u>
Total Assets	<u>\$ 2,432,761</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 41,540
Accrued Liabilities	32,985
Escrow Payable	11,700
Advances from State	293,722
Deferred Revenue	<u>805,260</u>
Total Liabilities	<u>1,185,207</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>1,247,554</u>
Total Fund Equities	<u>1,247,554</u>
Total Liabilities and Fund Equities	<u>\$ 2,432,761</u>

**Reconciliation of the Balance Sheet Fund
Balance to the Statement of Net Assets
For the Year Ended December 31, 2004**

Total Governmental Fund Balance	\$ 1,247,554
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,686,559
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(163,306)
The 2004 tax levy is not considered "available governmental funds" but is considered earned and recognized as revenue.	<u>805,260</u>
Net Assets of Governmental Activities	<u>\$ 20,576,067</u>

Leelanau County Road Commission**Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2004**

	<u>General Operating Fund</u>
Revenues	
Property Taxes	\$ 768,028
License and Permits	7,240
Federal Sources	441,486
State Sources	3,152,259
Contributions from Local Units	227,618
Charges for Services	766,949
Interest and Rents	107,709
Other Revenue	<u>197,374</u>
Total Revenues	<u>5,668,663</u>
Expenditures	
Public Works	5,975,246
Capital Outlay	<u>202,304</u>
Total Expenditures	<u>6,177,550</u>
Excess of Revenues Over (Under) Expenditures	(508,887)
Fund Balance – January 1, 2004	<u>1,756,441</u>
Fund Balance – December 31, 2004	<u>\$ 1,247,554</u>

**Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004**

Net Change in Fund Balance – Total Governmental Funds	\$ (508,887)
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	2,554,809
Net increase in tax revenue between 2004 levy and 2003 tax levy collected.	14,576
Compensated absence expenditures do not require the use of current financial resources and therefore are not reported as governmental fund expenditures.	<u>(22,779)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,037,719</u>

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Leelanau County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Leelanau County Road Commission.

The Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant items in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Leelanau County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners elected by the voters of Leelanau County. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Leelanau County Road Commission, a discretely presented component unit of Leelanau County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Leelanau County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or EquityCash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits and investments are carried at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Leelanau County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Leelanau County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)Vacation

Employees earn vacation hours according to union contract. Upon termination, death or retirement, employees are paid for their remaining vacation hours at their current rate of pay.

Sick Leave

Employees may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, employees are paid for 50% of their accumulated sick hours to a maximum of 280 hours at their current rate of pay.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each August. All budgets lapse at fiscal year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are listed in the Budgetary Comparison Schedule – Statement of Expenditures in violation of the Act.

NOTE 3 - CASH AND DEPOSITITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 100
Investments	<u>705,445</u>
Total Cash	<u>\$ 705,545</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE 3 - CASH AND DEPOSITS (Continued)

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ -	\$ 252,416

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The Road Commission would receive its proportional share of insurance coverage. Given the amount of the Road Commission's funds relative to the bank account total, we estimate that \$100,000 of the Road Commission's fund to be insured.

	<u>Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Uncategorized:					
Municipal Money Market	\$ -	\$ -	\$ -	\$ 705,445	\$ 705,445

The investments are the Road Commission's share of investment pools which were made up of, but not limited to, U.S. Treasury Agencies and instrumentalities, commercial paper, banker's acceptances, repurchase agreements and reverse repurchase agreements, stock and annuity contracts.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Leelanau County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Leelanau County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Leelanau County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Leelanau County Road Commission for the current year was as follows:

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 37,276	\$ -	\$ -	\$ 37,276
Land Improvements - Infrastructure	<u>4,576,933</u>	<u>1,052,962</u>	<u>-</u>	<u>5,629,895</u>
Subtotal	<u>4,614,209</u>	<u>1,052,962</u>	<u>-</u>	<u>5,667,171</u>
Capital Assets Being Depreciated				
Land Improvements	52,064	-	-	52,064
Buildings	1,553,441	-	-	1,553,441
Road Equipment	6,657,856	795,644	115,635	7,337,865
Shop Equipment	158,909	-	-	158,909
Office Equipment	48,853	1,289	10,874	39,268
Engineers' Equipment	18,203	1,263	-	19,466
Yard and Storage	601,188	-	-	601,188
Infrastructure – Roads	<u>11,343,832</u>	<u>1,843,844</u>	<u>-</u>	<u>13,187,676</u>
Subtotal	<u>20,434,346</u>	<u>2,642,040</u>	<u>126,509</u>	<u>22,949,877</u>
Less Accumulated Depreciation				
Land Improvements	15,619	5,206	-	20,825
Buildings	482,268	34,192	(6,342)	522,802
Road Equipment	5,491,488	533,491	115,354	5,909,625
Shop Equipment	138,835	4,091	-	142,926
Office Equipment	42,144	2,976	10,874	34,246
Engineers' Equipment	18,078	272	-	18,350
Yard and Storage	259,829	15,664	-	275,493
Infrastructure – Roads	<u>2,468,544</u>	<u>537,678</u>	<u>-</u>	<u>3,006,222</u>
Subtotal	<u>8,916,805</u>	<u>1,133,570</u>	<u>119,886</u>	<u>9,930,489</u>
Net Capital Assets Being Depreciated	<u>11,517,541</u>	<u>1,508,470</u>	<u>(6,623)</u>	<u>13,019,388</u>
Total Net Capital Assets	<u>\$ 16,131,750</u>	<u>\$ 2,561,432</u>	<u>\$ (6,623)</u>	<u>\$ 18,686,559</u>

Depreciation expense was charged to programs of the Leelanau County Road Commission as follows:

Primary Road	
Maintenance	\$ 396,383
Local Road	
Maintenance	141,295
Equipment Expense	533,491
Administrative	3,248
Distribution	<u>59,153</u>
Total Depreciation Expense	<u>\$ 1,133,570</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Leelanau County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Local Government Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Leelanau County Road Commission's competitive bargaining units and requires a contribution of 4% of wages. The commission will contribute an additional 10.01%.

Annual Pension Costs – For year ended 2004, the Leelanau County Road Commission's pension cost of \$147,467 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 3.0 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31st. follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 1,104,111	\$ 1,240,761	\$ 1,449,102
Actuarial Accrued Liability	2,623,767	2,894,115	3,353,746
Unfunded AAL	1,519,656	1,653,354	1,904,644
Funded Ratio	42%	43%	43%
Covered Payroll	1,200,685	1,269,287	1,472,307
UAAL as a Percentage of Covered Payroll	127%	130%	129%

The Leelanau County Road Commission's total payroll during the current year was \$1,539,987. The current year contribution was calculated based on covered payroll of \$1,468,904, resulting in an employer contribution of \$147,037 and employee contributions of \$58,755.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2004, the federal aid received and expended by the Road Commission was \$441,486 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>
Compensated absences	\$ <u>140,527</u>	\$ <u>22,779</u>	\$ <u>-</u>	\$ <u>163,306</u>
Total	\$ <u>140,527</u>	\$ <u>22,779</u>	\$ <u>-</u>	\$ <u>163,306</u>

(1) The change in compensated absences is shown as a net addition.

NOTE 10 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Road Commission provides post-employment health care benefits to all retired employees and/or their spouse. The benefits include the provision that a retiree pays 100% of the cost of the premium. Total costs remitted were \$52,037.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Required Supplementary Information

Leelanau County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues – Budget and Actual
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Taxes	\$ 775,000	\$ 775,000	\$ 768,028	\$ (6,972)
Licenses and Permits	5,000	6,390	7,240	850
Federal Sources				
Surface Transportation Program	-	220,744	220,743	(1)
“D” Funds	-	220,743	220,743	-
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,837,000	1,837,000	1,816,329	(20,671)
Local Road	1,018,000	1,018,000	993,014	(24,986)
Snow Removal	177,000	177,000	182,831	5,831
Economic Development Fund				
“D” Funds	-	110,371	110,371	-
Forest Road	39,800	39,800	39,714	(86)
Contributions from Local Units				
Townships	189,000	207,618	227,618	20,000
Other	50,000	-	-	-
Charges for Services				
State Trunkline Maintenance and Non-Maintenance	700,000	700,000	756,874	56,874
Salvage Sales	1,000	1,938	2,438	500
Other	-	-	7,637	7,637
Interest and Rents	15,000	15,000	107,709	92,709
Other Revenue				
Gain on Equipment Disposal	75,000	36,500	36,500	-
Other Funds	<u>26,000</u>	<u>167,510</u>	<u>160,874</u>	<u>(6,636)</u>
Total Revenue	<u>\$ 4,917,800</u>	<u>\$ 5,543,614</u>	<u>\$ 5,668,663</u>	<u>\$ 125,049</u>

Leelanau County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures – Budget and Actual
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Heavy Maintenance	\$ 500,000	\$ 1,813,779	2,056,367	(242,588)
Maintenance	570,000	520,000	659,127	(139,127)
Local Road				
Construction	-	-	71	(71)
Heavy Maintenance	750,000	753,335	840,367	(87,032)
Maintenance	1,000,000	1,080,553	1,481,870	(401,317)
State Trunkline				
Maintenance and Nonmaintenance	700,000	700,000	756,874	(56,874)
Distributive	840,000	840,000	-	840,000
Equipment Expense – Net	180,000	-	(693)	693
Administrative Expense – Net	175,800	125,800	181,263	(55,463)
Capital Outlay – Net	<u>670,000</u>	<u>790,000</u>	<u>202,304</u>	<u>587,696</u>
Total Expenditures	5,385,800	6,623,467	<u>\$ 6,177,550</u>	<u>\$ 445,917</u>
Fund Balance – January 1, 2004	<u>1,756,441</u>	<u>1,756,441</u>		
Total Budget	<u>\$ 7,142,241</u>	<u>\$ 8,379,908</u>		

Leelanau County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,651,375	\$ 2,139,335	\$ 877,953	\$ 5,668,663
Total Expenditures	<u>3,083,049</u>	<u>2,180,070</u>	<u>914,431</u>	<u>6,177,550</u>
Excess of Revenues Over (Under) Expenditures	(431,674)	(40,735)	(36,478)	(508,887)
Interfund Transfers	155,108	-	(155,108)	-
Fund Balance – January 1, 2004	<u>276,566</u>	<u>51,563</u>	<u>1,428,312</u>	<u>1,756,441</u>
Fund Balance – December 31, 2004	<u>\$ -</u>	<u>\$ 10,828</u>	<u>\$ 1,236,726</u>	<u>\$ 1,247,554</u>

Leelanau County Road Commission**Analysis of Revenues
For the Year Ended December 31, 2004**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Taxes	\$ -	\$ 768,028	\$ -	\$ 768,028
Licenses and Permits	-	7,240	-	7,240
Federal Sources				
Surface Transportation Program	220,743	-	-	220,743
"E" Funds	220,743	-	-	220,743
State Sources				
Michigan Transportation Fund				
Engineering	6,438	3,562	-	10,000
Primary Road	1,816,329	-	-	1,816,329
Local Road	-	993,014	-	993,014
Snow Removal	-	182,831	-	182,831
Economic Development Fund				
Rural Primary (D)	110,371	-	-	110,371
Forest Road (E)	39,714	-	-	39,714
Contributions from Local Units				
Township	60,000	167,618	-	227,618
Charges for Services				
State Trunkline				
Maintenance and				
Nonmaintenance	-	-	756,874	756,874
Salvage Sales	-	-	2,438	2,438
Other	-	-	7,637	7,637
Other Revenue				
Other	140,000	-	20,874	160,874
Interest and Rents	16,910	3,231	87,568	107,709
Gain on Disposals	<u>20,127</u>	<u>13,811</u>	<u>2,562</u>	<u>36,500</u>
Total Revenue	<u>\$ 2,651,375</u>	<u>\$ 2,139,335</u>	<u>\$ 877,953</u>	<u>\$ 5,668,663</u>

Leelanau County Road Commission**Analysis of Expenditures
For the Year Ended December 31, 2004**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Heavy Maintenance	\$ 2,056,367	\$ -	\$ -	\$ 2,056,367
Maintenance	659,127	-	-	659,127
Local Road				
Construction	-	71	-	71
Heavy Maintenance	-	840,367	-	840,367
Maintenance	-	1,481,870	-	1,481,870
State Trunkline Maintenance and Nonmaintenance	-	-	756,874	756,874
Equipment Expense – Net	(214)	(311)	(168)	(693)
Administrative Expense – Net	97,705	83,558	-	181,263
Capital Outlay – Net	<u>270,064</u>	<u>(225,485)</u>	<u>157,725</u>	<u>202,304</u>
Total Expenditures	<u>\$ 3,083,049</u>	<u>\$ 2,180,070</u>	<u>\$ 914,431</u>	<u>\$ 6,177,550</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Leelanau County Road Commission
10550 E. Eckerle Rd.
Suttons Bay, Michigan 49682

We have audited the financial statements of the governmental activities and major fund of the Leelanau County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Leelanau County Road Commission's basic financial statements and have issued our report thereon dated March 24, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leelanau County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Leelanau County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leelanau County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 24, 2005

FINDING – FINANCIAL STATEMENT AUDIT

Reportable Conditions – Internal Control

Segregation of Duties *Finding 04-1*

Statement of Condition/Criteria: The Road Clerk performs several functions of receipting disbursing and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Management's Response: The board has implemented compensating controls to reduce the risks discussed above.

Leelanau County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Michigan Department of Transportation (See Note)				
CR667 from M-22 South to Narlock Road	20.205	MG 0345(002)	72807	\$ 50,722
CR667 from M-72 North to Maple City	20.205	MG 0445(003)	76684	<u>390,764</u>
Subtotal MDOT Administered				<u>441,486</u>
Total U.S. Department of Transportation				<u>441,486</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 441,486</u></u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board
Leelanau County Road Commission
Suttons Bay, MI 49682

We have audited the financial statements of the Leelanau County Road Commission for the year ended December 31, 2004, and have issued our reports thereon dated March 24, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Leelanau County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Leelanau County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

In planning and performing our audit of the financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management to the financial statements.

Reportable conditions:

- 1) Lack of segregation of duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Leelanau County Road Commission are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Leelanau County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was depreciation expense and infrastructure costs.

Management's estimate of the capital asset amounts is based on Treasury Bulletins. We evaluated the key factors and assumptions used to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Leelanau County Road Commission that could potentially cause future financial statements to be materially misstated. We proposed no audit adjustments.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Leelanau County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Leelanau County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Infrastructure Reporting

The Commission should adopt a capitalization threshold for recording infrastructure amounts of \$5,000 or \$10,000 in accordance with GASB requirements. Additionally, the Commission should consider amending timecard categories to assist in the accumulation of infrastructure costs and classification.

Status: The Board anticipates adopting a policy to address this issue in 2005.

Inventory Status Report

The inventory status report does not reflect current quantity and per unit costs as indicated in manual support records. The software is designed to automatically calculate quantities and per unit cost rates to assure proper allocations of costs without manual adjustments.

Status: The software vendor had been informed of this issue.

Cafeteria Plan

The Board should adopt a cafeteria plan to comply with provisions of Internal Revenue Code Section 125 for pre-tax insurance benefits paid by employees.

Status: A draft plan has been reviewed by management which is expected to be approved in May 2005.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Leelanau County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 25, 2005